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The President's Scratch-Pad

The Prerogatives of Leadership

BUSINESS men are inclined to say that the country needs better labor leaders; union officials frequently say that we need better business leaders.

On one thing, at least, they agree—that leadership is important. As a matter of fact, it is America's hope of heaven.

Consider the management aspect only. From what do the much discussed "prerogatives" of management derive? Obviously they are delegated powers of ownership. The important question is, however: How are these prerogatives going to be preserved?

At this point the matter of leadership becomes important because management, in the final analysis, is leadership, and a leader maintains his privileges—the privileges of saying where his followers will go and what they will do—by maintaining their confidence in him.

Thus, management prerogatives are safe to whatever degree management leadership convinces the rank and file of its desire to deal fairly with employees. Management leadership must be based upon a good judgment of right and wrong, a keen sense of responsibility to provide employees equitably with steady work and adequate income, and a superior knowledge of the methods and techniques peculiar to the operation of the company. This is not meant to imply that the existence of wise leadership will prevent any questioning of management prerogatives, nor that there are not times when it is the part of leadership to stand firm against irresponsible unions. What it will prevent is the subtle whittling away of management functions, which often

goes unnoticed until the transfer of authority is a *fait accompli*.

One can argue that in a system of private ownership, the equity and powers of the owners are inviolable. In the face of the experience of the past ten years, however, it is unrealistic to assume such a position.

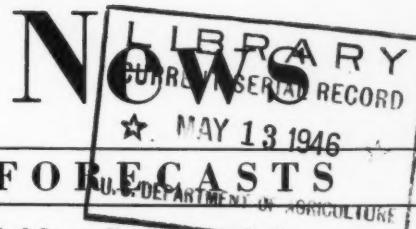
The fact remains that there is no limitation to the scope of collective bargaining. Labor will continue to ask for more. The real question is what will be management's position in view of this trend in 1955 or 1965? It is obvious that the answer to this question depends upon how well management acquires itself in the light of the foregoing criteria, which are not, incidentally, intended to be all inclusive.

It is for this reason that the ownership of American industry should have vital interest in the caliber of its managers.

The company ownership, interested only in the profits of a corporation, with blind disregard for the organization's employee relations, is not accepting the responsibilities which ownership in modern society entails. Stockholders and important financial interests today might well set down a rating sheet for themselves on which such questions as:

Does the ownership encourage local management to exercise its own good judgment in the face of realities? Or, does it insist upon unworkable policies that fail to take the realities into account? Does it select a capable management staff as carefully as the management staff itself tries to select a capable force of rank-and-file em-

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TRENDS IN BUSINESS

GENERAL OUTLOOK

Charges that industry has been "holding back" merchandise pending removal of the excess profits tax do not appear to be supported by the facts. There has been little, if any, improvement in the supply of goods available since January 1, and little seems to be in prospect. While it has been stated that reconversion is "90 per cent completed," it seems clear that it will take some months for production even to begin catching up with demand.

Current labor strife is adding enormously to the dangers of inflation, despite the loss of wages it entails. Every day of lost production increases the pressure on prices. Continuance of OPA after the mid-year seems likely at this moment, but its job will not be easy if there is not some abatement of scarcities very shortly.

If the labor situation is settled soon enough, and the inflationary danger successfully overcome, economists seem agreed that this country can scarcely avoid several years of good business.

PRODUCTION

Production rose slightly in December, continuing the advance which started in November, when the Federal Reserve Board's index of industrial production rose some 5 per cent. The shutdown in steel, however, will doubtless keep the January figure to a lower level.

Part of the December rise was accounted for by output of consumers' durable goods, but the over-all production in this field is still far below ordinary peacetime rates. Civilian Production Administrator John D. Small, reported recently that 150,000 electric refrigerators, 80,000 washing machines, some 100,000 radios, and 900,000 alarm clocks were shipped in December. The

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INV. '60

Trends in Business

(Continued)

latter figure is 75 per cent of the prewar monthly rate, but the percentage in the case of the other items is not nearly so large, and in any case, nowhere nearly adequate to meet the demand.

EMPLOYMENT

Employment in manufacturing increased slightly in Dec., and employment in trade registered a somewhat larger gain percentagewise. According to the Census Bureau, unemployment reached 2,000,000 in the first week in Dec., with 51,810,000 persons employed.

Current figures indicate that the number of persons over 14 years of age not in the labor force has risen by about 4,000,000, which may mean housewives, young people of school age, and older workers are retiring in sizable numbers. On the other hand, it may be that the figure is considerably distorted by returning veterans who are waiting a while before seeking jobs.

PRICES

Both retail and wholesale prices continued to rise in December, the former reaching a point about 2 per cent above the December, 1944, level.

Farm prices are acting much as they did after World War I. Both then and now the period immediately preceding the close of hostilities saw a slight recession in the index, followed by a strong upward movement during subsequent months. In May, 1920, the Department of Agriculture index reached 235, (August 1909-July, 1914 = 100), then dropped 52.3 per cent by June, 1921. In December of 1945, the index reached the highest point since the outbreak of the war, standing at 207.

DISTRIBUTION

Consumers spent about \$103.5 billion for goods and services in 1945, 5 per cent above the 1944 figure of \$98.5 billion. Retail volume in December was about 15 per cent above that for December, 1944.

Estimates of total wholesale volume for 1945 place it slightly above the level of 1944.

SOURCES:

ALEXANDER HAMILTON INSTITUTE
BROOKMIRE, INC.
BUSINESS WEEK
CLEVELAND TRUST COMPANY
DUN'S REVIEW
FEDERAL RESERVE BANK OF
NEW YORK
NATIONAL CITY BANK

HEARD AT AMA MEETINGS

OUTLOOK FOR INDUSTRY

Once we have succeeded in eliminating the serious threat of inflation, the outlook for industry is good for several years, said Alfred Schindler, Under Secretary of Commerce, dinner speaker at the Marketing Conference, January 15-17 in New York City.

"For example," Mr. Schindler continued, "the auto industry has an immediate demand that has been roughly estimated to be between 10 and 12 million cars. Other cars will be discarded and replaced as this industry works toward its peak, and the chances are that demand will not slacken off before the very end of 1948 or the beginning of 1949.

"In the steel industry, the end of the war brought a decline in production. Present steel production is about 80 per cent of capacity. To some extent, this may be an artificially high rate for this stage of reconversion, stimulated by fear of rising prices or of the cutting of supplies by labor disputes. But when we consider the backlog of demand for automobiles and other consumer durable goods, as well as the backlog of many other industries, then we can see the steel industry working on a heavy order book right through 1948.

"In construction we have perhaps our most pressing deferred demand. The construction rate is far below normal and won't even get up to what may be considered normal in relation to national income for some time. It is safe to say that with the tremendous backlog of demand, the construction industry can be working full speed for the next 10 or 15 years at least."

* * *

EXECUTIVE COMPENSATION

During the war, many corporations felt that their executives deserved increased compensation to an extent not possible under stabilization regulations. May retroactive raises be provided now, and still be considered costs for income tax purposes? An old Supreme Court decision, the Ox Fibre Brush Co. case, would indicate that this is possible. Maurice Austin, Partner, Klein, Hinds & Finke, stated at the Finance Conference (December 6-7 in New York City). "It appears," Mr. Austin said, "that if the directors vote additional compensation to an employee for services rendered in past periods, compensation

which is reasonable in relation to services rendered during the periods for which it is given, the amount may be deducted in the year voted and paid.

"Of course, the Bureau of Internal Revenue is equally familiar with that decision, and it may be expected that it will resist the deduction of unreasonable increases. The rule of reason is a good one. Corporate employers will have less difficulty in such cases if they will act in moderation and not go to extremes."

* * *

CENSUS DATA

Unpublished census data constitute a mine of detailed information, much of which would be of great value to production or marketing management, Dr. Philip M. Hauser, Assistant Director, Bureau of the Census, reported at the Marketing Conference.

"These data," Dr. Hauser said, "are made available upon request, for the nominal cost of transcription, photostating, or microfilming, although the confidential character of the returns of the individual establishment or person is, of course, protected. For many specific problems for which census information does not provide the answer, it usually pays to make inquiry about the unpublished data."

* * *

SALARY VARIES WITH PROFITS

The Scranton Lace Company uses an incentive compensation plan under which salary varies with net profits. A general index has been established calling for 80 per cent of base salary when profits per share of common stock are a dollar per annum, 85 per cent of base salary when they are \$1.25 and so on up to 120 per cent of salary when the profit per share of common stock reaches \$4.

The plan, which was described by William E. Jones, the company's Vice President for Sales, at the Marketing Conference, has also been adapted to salesmen's compensation. In this case, however, the index is based on the salesman's own sales in relation to the quota: 70 per cent of quota means 85 per cent of the salary base; 80 per cent of quota, 90 per cent of the salary base, and so on up to 130 per cent of quota, which means 115 per cent of the salary base.

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RESEARCH DEPARTMENT

The Location of Industry

The location of factories is again receiving attention from many companies. A paper on decentralization by a high official of the General Electric Company attracted considerable notice at AMA's recent General Management Conference.* Special location studies have been undertaken within the past few years at several universities. There is a good deal of discussion of the effects of rural surroundings on workers' efficiency. And, above all, the appearance of the atomic bomb is forcing a complete over-all reexamination of the location problem.

It is impossible to deal with the far-flung aspects of the location question in such a brief article as this. Hence attention will be centered on a number of the more important economic aspects, though, obviously, other aspects must also be taken into account.

The basic consideration in the location of a new plant should be the cost per unit of output expected in the various possible locations. Next, it will be necessary to find out the relative share of the various cost components in the totals and examine the effect of location on the more important.

TRANSPORTATION

The transportation factor is usually held of considerable importance. Many of our heavy industries have been located at the source of their raw material, for in this way the transportation costs of the manufactured article were measurably reduced. For example, the initial cost of phosphoric iron ore is doubled by a 35-mile haul, and more than quadrupled by a haul of 120 miles. Thus iron and steel plants were frequently located near their coal or ore sources.

Nevertheless, proximity to raw materials is becoming a much less important factor:

1. There has been a general reduction in transportation costs, especially with the development of motor transport;
2. The relative and absolute importance of many heavy industries has declined. The newer, rising industries are increasingly

removed from the traditional, heavy industries. The proportion of raw material costs to total cost is declining and the number of raw materials used is increasing.

3. The development of power has made possible a further decentralization of industry.
4. There has been a spread of uniform pricing under which all charges, including transportation costs, are equal for all buyers, regardless of their distance from the supplier. All together, it is clear that transportation costs are becoming a smaller proportion of total costs; the choice of locations is becoming wider; and the existing industrial structure and existing locations tend to be more important than the geographical distribution of raw materials.

MARKETS

In recent years proximity to markets has been of rising importance. This is partly due to increasing consumer-consciousness on the part of American business, largely the result of "buyers' strikes" during the 30's. With this is joined the desire to be of greater service to customers, even though retailers have been buying more and more on the "hand-to-mouth" system.

Manufacturing activities lying near to their markets tend to be much more diverse than those near their raw material supplies. For markets are always more diverse than sources of raw materials within a given area. And this process is cumulative. It should be noted also that the most diverse areas can adjust themselves more easily to the inevitable changes in economic conditions.

LABOR

Economic historians have been fond of explaining the choice of many a location by "the presence of a skilled labor force." While this may have often been the case, there are also frequent instances in which the workers migrated to the factories and the sequence was reversed. Also, employers have at times avoided centers of skilled labor in order to train employees for their particular needs and be in less danger of losing workers to competitors.

It has often been said that factories are established at a distance from centers of organized labor strength, because trade unions are held to increase cost rigidities. The movement of the cotton textile industry from the North to the South is partially explained on this basis. But while a number of employers may deliberately move away from strongly unionized areas, others may be found who prefer to deal with organized labor, one expert in the field points out. It is probable that no general statement can be made on the matter, one way or another.

IRRATIONALITY

Apart from other cost factors, such as taxation, borrowing facilities, etc., it is sometimes said that the employer's caprice decides where he finally settles down. Of course, there are many intangible factors, so that costs alone are never all-decisive. Many factors cannot be evaluated properly. There are considerations of the future, as yet unknown. And where there is little competition, costs are less important.

Nevertheless, it appears that costs of alternative sites are often carefully studied and considered. Even where the cost factor *could* be neglected, it is doubtful how far it is neglected.

TREND TOWARD DECENTRALIZATION

There appears to be less tendency nowadays to stress the gains from large-scale production and concentration in heavily industrialized areas. At least this appears to be the trend in some of the larger firms. For example, the General Electric Company is planning to reduce the size of its units and distribute them over a much larger territory. The chief reasons given are as follows:

1. To avoid a dominant position in any one industrial community;
2. To help reduce the variety and volume of top management decisions;
3. To reduce the disadvantages of bigness;
4. To deal more effectively with personnel problems. Whether this phenomenon is indicative of a wider movement in the United States, it is yet too early to say. But it is eminently clear that there has been a shift in the relative importance of the factors which determine the location of industry.

ACTIVITIES of the AMA

Chicago Personnel Conference to Gauge Long-Term Labor Trends

Significance of Current Developments to Be Evaluated at Sessions

An objective inquiry into current trends in the labor relations picture, particularly the long-term trends which may be expected to continue after the current strikes are settled, is planned for AMA's Chicago Personnel Conference, to be held at the Palmer House February 13-15.

For example, in what important respects have labor agreements changed since the conclusion of war? Results of a survey made by AMA of new union agreements will be reported on by Ralph A. Lind, Director, Labor Relations Department, Stevenson, Jordan & Harrison. Other topics at the same session (Wednesday afternoon, February 13) will be "What the Fact-Finders Have Found," by Dr. Leo Wolman, Professor of Economics, Columbia University, and "Implications of 'Company Security' Against Stoppages," by Samuel Shuchter, Vice President, Goodall Company.

A panel session on Thursday afternoon, February 14, will consider "Areas for Management-Labor Cooperation." Speakers will be Larry A. Combs, Director of Industrial Relations, Container Corporation of America; Guy B. Arthur, Jr., Vice President and Director, The American Thread Company; Joseph Scanlon, United Steelworkers, and William Gomberg, International Ladies' Garment Workers.

Dinner speaker Thursday evening will be Robert Ramspeck, Executive Vice President, Air Transport Association, and former member of the House of Representatives, who will discuss current attitudes in Congress on labor legislation.

Other labor relations topics will be: "The Common Goal of Management and Labor," Dr. George D. Heaton, Myers Park Baptist Church, Charlotte, N. C.; "Labor Relations in a Non-Unionized Company," Raymond S. Livingstone, Vice President in Charge of Personnel, Thompson Products, Inc.; and "Management and Unions Look Ahead," Dr. E. Wight Bakke, Director of the Labor and Management Center, Yale University.



GUY B. ARTHUR, JR.

Mr. Arthur, AMA Vice President for the Personnel Division, is in charge of the sessions.

Addresses dealing with personnel techniques will include: "Employee Selection Procedure—A Minimum Program," Richard Fear, Director, Industrial Division, The Psychological Corporation; "Merit Rating, Its Validity and Techniques," Dr. Joseph Tiffin, Purdue University; "Development and Training of Executives and Supervisory Personnel," George B. Corless, Standard Oil of New Jersey; "Interpretation of Personnel Reports and Statistics," Dale Yoder, Director, Industrial Relations Center, University of Minnesota; and "Employee and Public Relations," Eugene J. Lyons, Director of Industrial Relations, Merck & Company.

THE TWI REPORT

Training Within Industry, whose five-year existence makes it one of the oldest wartime government agencies, has issued a narrative account of its work with more than 16,000 war plants and services, under the title, *The Training Within Industry Report: 1940-1945*.

3-Day Conference on Insurance Set for March 11-13

The Insurance Division of AMA will sponsor a three-day conference March 11, 12, and 13, at the Hotel New Yorker, New York City.

Panel discussions will be featured, and will include a question-and-answer session covering casualty, boiler and machinery, fire, use and occupancy, and inland marine insurance; a round table on insurable values; and a discussion of current workmen's compensation.

Other topics will be: "The Basic Theory of Fire Insurance Rating," "Some Aspects of the Law of Aviation Workmen's Compensation," "An Examination of Participating Carriers in the Casualty Business," "The Importance of the Insurance Buyer's Job," "What's Ahead in Use and Occupancy?" "The Employee's Viewpoint on Group Hospitalization and Medical Care."

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(Continued from page 1)
ployees? Does it regard the administration of industrial relations in the company as a function as important to the company as its profits, its sales, its patents, and its methods of production? Does it rate management executives on their ability to stimulate confidence among the employees in the company's fairness? Has the board of directors always obtained all the facts on any labor situation before establishing a policy?

It has been said that the quality and attitude of union leadership is frequently a reflection of the quality and attitudes of management. This is a generalization, but in a broad sense the statement is true. But labor unionists have freely admitted to this writer the inadequacies of labor leadership. Better labor leadership is also America's hope of heaven, but the character of our future labor leadership will unquestionably be widely influenced by the policies and attitudes of management.

Alvin E. Dodd

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